

**CHARTER OAK-UTE
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2002 Election)

Mark Kuhlmann	President	2003
Betty Lou Olson	Vice President	2004
Randy Weed		2004
Bill Magill		2003
Joanne Seufert		2005

(After September, 2002 Election)

Betty Lou Olson	President	2004
Bill Magill	Vice President	2006
Randy Weed		2004
Joanne Seufert		2005
Valeta Pautsch		2006

SCHOOL OFFICIALS

Dr. Timothy Peterson (resigned March, 2004)	Superintendent
Bill Wright (effective, March 2004)	Superintendent
Cathy Carstens	District Secretary /Treasurer

Independent Auditor's Report

To The Board of Education of the
Charter Oak-Ute Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Charter Oak-Ute Community School District, Boxholm, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Charter Oak-Ute Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 7 to the financial statements, during the year ended June 30, 2004, Charter Oak-Ute Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated August 13, 2004 on our consideration of Charter Oak-Ute Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 thru 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Charter Oak-Ute Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the year ended June 30, 2001 (none of which are presented herein) were audited by other auditors who expressed an unqualified opinion on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

August 13, 2004

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Charter Oak-Ute Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,513,679 in fiscal 2003 to \$2,608,597 in fiscal 2004, while General Fund expenditures increased from \$2,336,133 in fiscal year 2003 to \$2,602,665 in fiscal 2003.
- The increase in General Fund revenues was primarily attributable to an increase in Federal grant revenue. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. The General Fund balance increased slightly due to cuts in discretionary spending.
- The District collects School Infrastructure Local Option Sales Tax from Monona and Crawford Counties during the year. These funds are being used to finance improvements in the Districts infrastructure.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Charter Oak-Ute Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Charter Oak-Ute Community School District operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Charter Oak-Ute Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

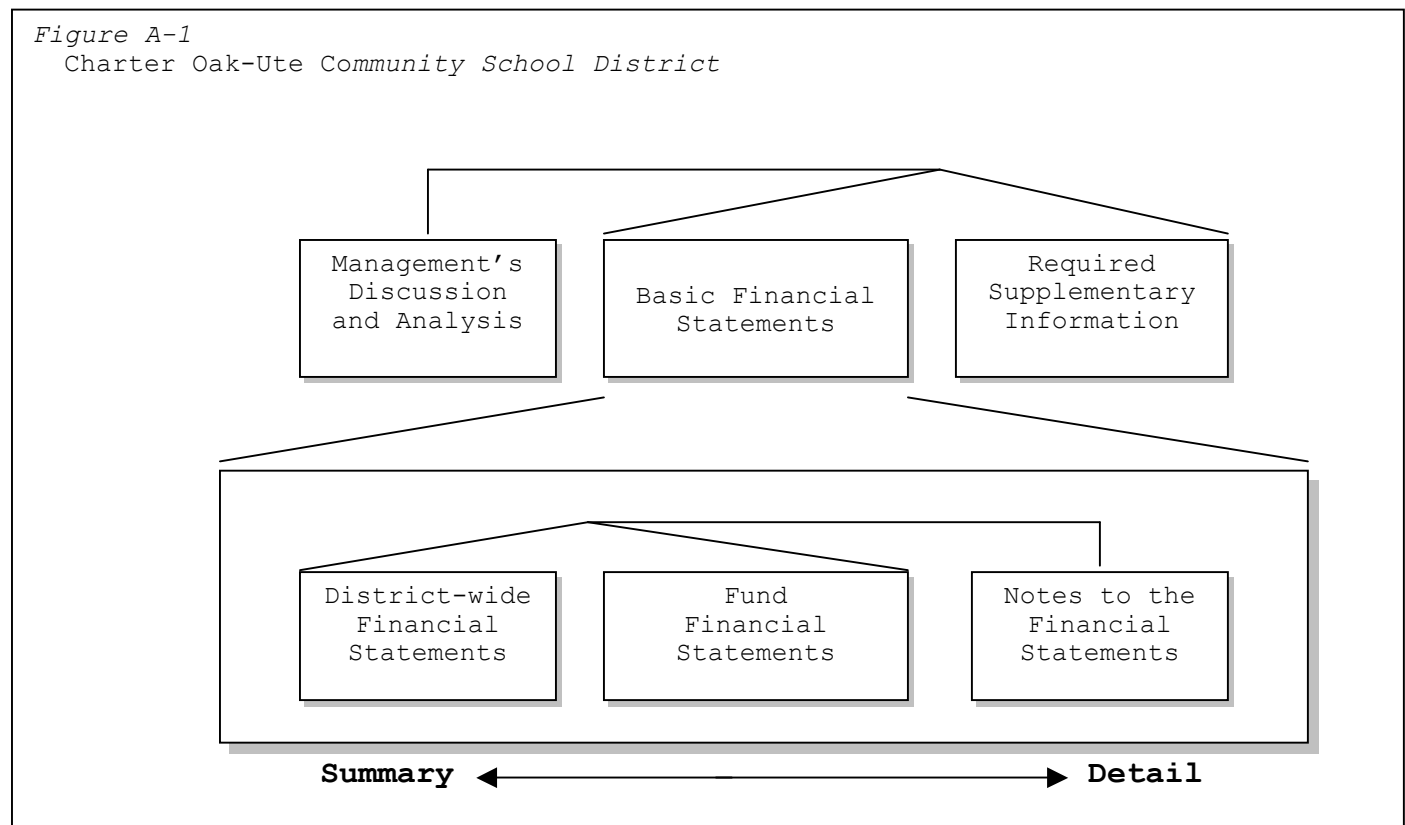


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2

Major Features of the District-Wide and Fund Financial Statements

	District-Wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	<ul style="list-style-type: none"> . Statement of net assets . Statement of activities 	<ul style="list-style-type: none"> . Balance sheet . Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> . Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

District-wide Financial Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Reconciliations between the district-wide financial statements and the fund financial statements follow the fund financial statements.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to June 30, 2003.

Figure A-3 Condensed Statement of Net Assets (expressed in thousands)							
	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
	\$	\$	\$	\$	\$	\$	
Current assets	1,777	1,721	31	20	1,808	1,741	3.85%
Capital assets	<u>778</u>	<u>733</u>	<u>1</u>	<u>1</u>	<u>779</u>	<u>734</u>	<u>6.13%</u>
Total assets	<u><u>2,555</u></u>	<u><u>2,454</u></u>	<u><u>32</u></u>	<u><u>21</u></u>	<u><u>2,587</u></u>	<u><u>2,475</u></u>	<u><u>4.53%</u></u>
Current liabilities	1,170	1,116	-	-	1,170	1,116	4.84%
Non-current liabilities	<u>21</u>	<u>23</u>	<u>-</u>	<u>-</u>	<u>21</u>	<u>23</u>	<u>0.00%</u>
Total liabilities	<u><u>1,191</u></u>	<u><u>1,139</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>1,191</u></u>	<u><u>1,139</u></u>	<u><u>4.57%</u></u>
Net Assets							
Invested in capital assets, net of related debt	778	733	1	1	779	734	6.13%
Unrestricted	<u>586</u>	<u>582</u>	<u>31</u>	<u>20</u>	<u>617</u>	<u>602</u>	<u>2.49%</u>
Total net assets	<u><u>1,364</u></u>	<u><u>1,315</u></u>	<u><u>32</u></u>	<u><u>21</u></u>	<u><u>1,396</u></u>	<u><u>1,336</u></u>	<u><u>4.49%</u></u>

The District's combined net assets increased by over 4%, or approximately \$60,000 over the prior year. The largest portion of the District's net assets is invested in capital assets.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased approximately \$15,000 or 2%. This increase in unrestricted net assets was a result of savings in discretionary spending.

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	260	55	315
Operating grants, contributions and restricted interest	656	74	730
General revenues:			
Property tax	1,005	-	1,005
Income surtax	106		106
Sales tax	64	-	64
Unrestricted state grants	876	-	876
Unrestricted investment earnings	8	-	8
Other	13	-	13
Total revenues	<u>2,988</u>	<u>129</u>	<u>3,117</u>
Program expenses:			
Governmental activities:			
Instruction	1,986	-	1,986
Support Services	785	-	785
Non-instructional programs	11	118	129
Other expenses	157	-	157
Total expenses	<u>2,939</u>	<u>118</u>	<u>3,057</u>
Change in net assets	<u>49</u>	<u>11</u>	<u>60</u>

Property tax and unrestricted state grants account for 60% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 91% of the total expenses

Governmental Activities

Revenues for governmental activities were \$2,987,826 and expenses were \$2,938,964.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	1,986	1,209
Support Services	785	783
Non-instructional programs	11	11
Other expenses	<u>157</u>	<u>20</u>
Totals	<u>2,939</u>	<u>2,023</u>

- The cost financed by users of the District's programs was \$58,382.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$655,968.
- The net cost of governmental activities was financed with \$1,174,965 in property and other taxes and \$875,999 in unrestricted state grants.

Business-Type Activities

Revenues for business type activities were \$129,362 and expenses were \$118,056. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District held meal prices steady. The District used General Fund monies to pay some payroll related expenses.

INDIVIDUAL FUND ANALYSIS

As previously noted, Charter Oak-Ute Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of 1,407,410, a five percent increase over last year's ending fund balances of \$1,336,241.

Governmental Fund Highlights

- The District's improving General Fund financial position is the result of several factors. Increases in grants obtained have had a positive impact. The District has also carefully monitored discretionary spending to avoid decreases in fund balances. The preservation of the General Fund balance is especially important in light of the State's decision to remove the budget guarantee.
- The Physical Plant and Equipment Levy (PPEL levy) decreased over \$54,000 as a result of the District purchasing two new buses.
- The Capital Projects fund is funded by sales tax collected in Monona and Crawford Counties. This money can be used for many of the same purposes as the District's PPEL levy. The District is currently prioritizing projects for use of these funds.

Proprietary Fund Highlights

The School Nutrition Fund balance increased approximately \$11,000 during the fiscal year ending June 30, 2004. This was a result of the General Fund being used to pay approximately \$11,000 in payroll related expenses.

BUDGETARY HIGHLIGHTS

The District's receipts were \$22,035 less than budgeted receipts, a variance of 1%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$778,440, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 6% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$84,178.

The original cost of the District's capital assets was \$2,931,481. Governmental funds account for \$2,926,627, with the remainder of \$28,822 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the transportation progress category. The District spent \$97,750 on new buses during the year.

Figure A-6
Capital Assets, net of Depreciation
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
	\$	\$	\$	\$	\$	\$	
Land	1	1	-	-	1	1	0.00%
Buildings	518	536	-	-	518	536	-3.36%
Improvements other than buildings	107	105	-	-	107	105	1.90%
Furniture and equipment	152	91	1	1	153	92	66.30%
Totals	778	733	1	1	779	734	6.13%

Long-Term Debt

The District has early retirements and an interest free asbestos loan included in its long-term debt. Early retirements will be paid from the Management Fund as they come due. The asbestos loan has three years remaining with annual payments of \$2,000.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- East Monona Community School District dissolved June 30, 2004. Charter Oak-Ute will receive money and additional property tax base as a result of this.
- For the 2003-04 school year the state cut the District's budget by 2.5%. This was an across the board cut, effecting Phase I & II and Teacher Compensation as well as other areas. This will force the District to use some of the cash on hand. To maintain programs at current levels. Cuts made during the fiscal year negatively impact the District's balances as adequate expense reductions are not possible.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Rollie Wiebers, Superintendent, Charter Oak-Ute Community School District, 321 Main Street, Charter Oak, IA 51439.

Basic Financial Statements

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets and Other Debits			
Cash and pooled investments	502,976	20,038	523,014
Receivables:			
Property tax:			
Current year	15,408	-	15,408
Succeeding year	1,038,053	-	1,038,053
Income surtax - succeeding year	125,720	-	125,720
Due from other governments	77,712	-	77,712
Inventories	17,281	11,908	29,189
Capital assets, net of accumulated depreciation	777,940	500	778,440
Total assets and other debits	2,555,090	32,446	2,587,536
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accrued salaries and benefits	6,560	-	6,560
Deferred revenue:			
Succeeding year property tax	1,038,053	-	1,038,053
Succeeding year income surtax	125,720	-	125,720
Long-term liabilities:			
Portion due within one year:			
Early retirement payable (note 9)	4,680	-	4,680
Asbestos loan payable (note 9)	2,000	-	2,000
Portion due after one year:			
Early retirement payable (note 9)	9,750	-	9,750
Asbestos loan payable (note 9)	4,364	-	4,364
Total liabilities	1,191,127	-	1,191,127
Fund equity and other credits:			
Fund balances:			
Invested in capital assets	777,940	500	778,440
Reserved for Management	15,871	-	15,871
Reserved for Property Plant and Equipment	58,455	-	58,455
Reserved for Capital Projects	71,108	-	71,108
Unreserved	440,589	31,946	472,535
Total fund equity and other credits	1,363,963	32,446	1,396,409
Total liabilities and fund equity and other credits	2,555,090	32,446	2,587,536

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
<u>Functions/Programs</u>						
Governmental activities:						
Instruction:						
Regular instruction	1,256,674	205,547	178,810	(872,317)	-	(872,317)
Special instruction	324,963	54,345	204,797	(65,821)	-	(65,821)
Other instruction	404,626	-	133,685	(270,941)	-	(270,941)
	<u>1,986,263</u>	<u>259,892</u>	<u>517,292</u>	<u>(1,209,079)</u>	<u>-</u>	<u>(1,209,079)</u>
Support services:						
Student services	49,415	-	1,884	(47,531)	-	(47,531)
Instructional staff services	3,078	-	-	(3,078)	-	(3,078)
Administration services	293,964	-	-	(293,964)	-	(293,964)
Operation and maintenance of plant services	263,062	-	-	(263,062)	-	(263,062)
Transportation services	175,112	-	-	(175,112)	-	(175,112)
	<u>784,631</u>	<u>-</u>	<u>1,884</u>	<u>(782,747)</u>	<u>-</u>	<u>(782,747)</u>
Noninstructional programs:						
Food service operations	10,232	-	-	(10,232)	-	(10,232)
Community service and education	769	-	-	(769)	-	(769)
	<u>11,001</u>	<u>-</u>	<u>-</u>	<u>(11,001)</u>	<u>-</u>	<u>(11,001)</u>
Other expenditures:						
Facilities acquisition and construction services	50,346		50,963	617	-	617
AEA flowthrough	85,829		85,829	-	-	-
Depreciation (unallocated) *	20,894	-	-	(20,894)	-	(20,894)
	<u>157,069</u>	<u>-</u>	<u>136,792</u>	<u>(20,277)</u>	<u>-</u>	<u>(20,277)</u>
Total governmental activities	2,938,964	259,892	655,968	(2,023,104)	-	(2,023,104)

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues					
		Charges for	Operating Grants, Contributions and Restricted Interest	Governmental	Business-Type	Total
	Expenses	Service		Activities	Activities	
	\$	\$	\$	\$	\$	\$
Business-Type activities:						
Non-instructional programs:						
Nutrition services	118,056	55,428	73,934	-	11,306	11,306
Total	3,057,020	315,320	729,902	(2,023,104)	11,306	(2,011,798)
General revenues:						
Property tax levied for:						
General purposes				969,690	-	969,690
Capital outlay				34,959	-	34,959
Income surtax levied for:						
Instructional support				62,405	-	62,405
Capital outlay				43,366	-	43,366
Sales tax collected for:						
Capital outlay				64,545	-	64,545
Unrestricted state grants				875,999	-	875,999
Unrestricted investment earnings				7,957	-	7,957
Other				13,045	-	13,045
Total general revenue				2,071,966	-	2,071,966
Change in net assets				48,862	11,306	60,168
Net assets beginning of year, as restated (note 7)				1,315,101	21,140	1,336,241
Net assets end of year				1,363,963	32,446	1,396,409

* This amount excludes the depreciation that is included in the direct expenses of the various programs.
See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2004

	General	Capital Projects	Non-major Governmental	Total
	\$	\$	\$	\$
Assets and Other Debits				
Cash and pooled investments	331,252	63,627	108,097	502,976
Receivables:				
Property tax				
Current year	14,032	-	1,376	15,408
Succeeding year	931,436	-	106,617	1,038,053
Income surtax - succeeding year	73,953	-	51,767	125,720
Due from other governments	70,231	7,481	-	77,712
Inventory	17,281	-	-	17,281
Total assets and other debits	<u>1,438,185</u>	<u>71,108</u>	<u>267,857</u>	<u>1,777,150</u>
Liabilities, Fund Equity and Other Credits				
Liabilities:				
Accrued salary and benefits	6,560	-	-	6,560
Deferred revenue:				
Succeeding year property tax	931,436	-	106,617	1,038,053
Succeeding year income surtax	73,953	-	51,767	125,720
Total liabilities	<u>1,011,949</u>	<u>-</u>	<u>158,384</u>	<u>1,170,333</u>
Fund equity and other credits:				
Fund balances:				
Reserved for inventory	17,281	-	-	17,281
Unreserved	408,955	71,108	109,473	589,536
Total fund equity and other credits	<u>426,236</u>	<u>71,108</u>	<u>109,473</u>	<u>606,817</u>
Total liabilities and fund equity and other credits	<u>1,438,185</u>	<u>71,108</u>	<u>267,857</u>	<u>1,777,150</u>

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	\$ 606,817
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	777,940
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	<u>(20,794)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 1,363,963</u></u>

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Capital Projects	Non-major Governmental	Total
	\$	\$	\$	\$
Revenues:				
Local sources				
Local tax	977,312	64,545	133,107	1,174,964
Tuition	259,892	-	-	259,892
Other	19,195	5,028	130,015	154,238
State sources	1,107,508	-	71	1,107,579
Federal sources	244,690	-	46,463	291,153
Total revenues	<u>2,608,597</u>	<u>69,573</u>	<u>309,656</u>	<u>2,987,826</u>
Expenditures:				
Instruction				
Regular instruction	1,250,652	-	10,897	1,261,549
Special instruction	324,963	-	-	324,963
Other instruction	271,296	-	133,330	404,626
	<u>1,846,911</u>	<u>-</u>	<u>144,227</u>	<u>1,991,138</u>
Support services				
Student services	49,415	-	-	49,415
Instructional staff services	3,078	-	-	3,078
Administration services	273,619	-	20,345	293,964
Operation and maintenance of plant services	205,412	-	62,549	267,961
Transportation services	128,119	-	107,793	235,912
	<u>659,643</u>	<u>-</u>	<u>190,687</u>	<u>850,330</u>
Noninstructional programs:				
Food service operations	9,513	-	719	10,232
Community service and education	769	-	-	769
	<u>10,282</u>	<u>-</u>	<u>719</u>	<u>11,001</u>
Other expenditures				
Long-term debt:				
Principal	-	-	2,000	2,000
Facilities acquisition and construction services	-	26,917	23,429	50,346
AEA flowthrough	85,829	-	-	85,829
	<u>85,829</u>	<u>26,917</u>	<u>25,429</u>	<u>138,175</u>
Total expenditures	<u>2,602,665</u>	<u>26,917</u>	<u>361,062</u>	<u>2,990,644</u>

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Capital Projects	Non-major Governmental	Total
	\$	\$	\$	\$
Excess (deficiency) of revenues over (under) expenditures	<u>5,932</u>	<u>42,656</u>	<u>(51,406)</u>	<u>(2,818)</u>
Other financing sources(uses):				
Operating transfers in	-	-	2,000	2,000
Operating transfers out	<u>(2,000)</u>	<u>-</u>	<u>-</u>	<u>(2,000)</u>
	<u>(2,000)</u>	<u>-</u>	<u>2,000</u>	<u>-</u>
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	3,932	42,656	(49,406)	(2,818)
Fund balances beginning of year, as restated (note 7)	<u>422,304</u>	<u>28,452</u>	<u>158,879</u>	<u>609,635</u>
Fund balances end of year	<u><u>426,236</u></u>	<u><u>71,108</u></u>	<u><u>109,473</u></u>	<u><u>606,817</u></u>

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (Exhibit E) \$ (2,818)

Amounts reported for governmental activities in the
statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 128,578	
Depreciation expense	<u>(83,773)</u>	44,805

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

6,875

Change in net assets of governmental activities (Exhibit B) \$ 48,862

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>55,428</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	41,480
Benefits	5,746
Services	581
Supplies	69,485
Property	359
Depreciation	<u>405</u>
Total operating expenses	<u>118,056</u>
Operating (loss)	<u>(62,628)</u>
Non-operating revenues:	
Interest on investments	213
State sources	1,911
Federal sources	<u>71,810</u>
	<u>73,934</u>
Net profit	11,306
Net assets beginning of year	<u>21,140</u>
Net assets end of year	<u><u>32,446</u></u>

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	55,428
Cash payments to employees for services	(47,226)
Cash payments to suppliers for goods or services	<u>(56,671)</u>
Net cash provided by (used in) operating activities	<u>(48,469)</u>
Cash flows from non-capital financing activities:	
State grants received	1,911
Federal grants received	<u>57,564</u>
Net cash provided by non-capital financing activities	<u>59,475</u>
Cash flows from investing activities:	
Interest on investments	<u>213</u>
Net increase in cash and cash equivalents	11,219
Cash and cash equivalents beginning of year	<u>8,819</u>
Cash and cash equivalents end of year	<u><u>20,038</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	(62,628)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	405
Commodities used	14,246
(Increase) in inventory	<u>(492)</u>
	<u>(48,469)</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	<u><u>20,038</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received federal commodities valued at \$14,246.

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The Charter Oak-Ute Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Charter Oak and Ute, Iowa, and agricultural area in Monona and Crawford Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Charter Oak-Ute Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Charter Oak-Ute Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Monona and Crawford County Assessor's Conference Boards.

B. Basis of Presentation

District-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund used to purchase equipment (over \$500 per item) and for major repairs and improvements to buildings and grounds as well as for infrastructure construction projects. It is funded through a one cent sales tax.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable- Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1
Buildings	10,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2004.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the District-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2004.

(3) Capital Assets

	Balance Beginning of Year, as restated (note 12)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>1,247</u>	<u>-</u>	<u>-</u>	<u>1,247</u>
Capital assets being depreciated:				
Buildings	1,221,653	-	-	1,221,653
Improvements other than buildings	180,510	7,463	-	187,973
Furniture and Equipment	<u>1,409,039</u>	<u>121,115</u>	<u>14,400</u>	<u>1,515,754</u>
Total capital assets being depreciated	<u>2,811,202</u>	<u>128,578</u>	<u>14,400</u>	<u>2,925,380</u>
Less accumulated depreciation for:				
Buildings	686,005	18,109	-	704,114
Improvements other than buildings	74,997	5,921	-	80,918
Furniture and Equipment	<u>1,318,312</u>	<u>59,743</u>	<u>14,400</u>	<u>1,363,655</u>
Total accumulated depreciation	<u>2,079,314</u>	<u>83,773</u>	<u>14,400</u>	<u>2,148,687</u>
Total capital assets being depreciated, net	<u>731,888</u>	<u>44,805</u>	<u>-</u>	<u>776,693</u>
Governmental activities, capital assets, net	<u>733,135</u>	<u>44,805</u>	<u>-</u>	<u>777,940</u>
Business type activities:				
Furniture and equipment	4,854	0	-	4,854
Less accumulated depreciation	<u>3,949</u>	<u>405</u>	<u>-</u>	<u>4,354</u>
Business type activities capital assets, net	<u>905</u>	<u>(405)</u>	<u>-</u>	<u>500</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Support services:				
Operation and maintenance of plant				24,030
Transportation				38,849
Unallocated				<u>20,894</u>
				<u>83,773</u>
Business Type activities				
Food service operations				<u>405</u>

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$94,029, \$86,403, and \$81,561 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$85,829 for year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Risk Management

Charter Oak-Ute Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

Each member's contributions to ISEBA funds current operations and provided capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$118,221.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Charter Oak-Ute Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the fiscal year ending June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include District-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The District-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

	Capital Projects			
	Fund			
	General	Equipment Levy	Special Revenue	Total
Net assets, June 30, 2002, as previously reported	\$ 422,304	28,452	154,004	604,760
GASB Interpretation 6 adjustments	<u>-</u>	<u>-</u>	<u>4,875</u>	<u>4,875</u>
Net assets, July 1, 2002, as restated for governmental funds	<u>\$ 422,304</u>	<u>28,452</u>	<u>158,879</u>	<u>609,635</u>
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of	\$2,079,314			733,135
Long-Term Liabilities:				
Asbestos Loan payable				(8,364)
Early retirement payable				<u>(19,305)</u>
Net assets, July 1, 2002, as restated				\$1,315,101

(8) East Monona Community School District Dissolution

As of June 30, 2004, the East Monona Community School District dissolved with remaining funds and property being allocated among neighboring districts. As of the date of the audit, the financial impact on the Charter Oak-Ute Community School District was not known, however, no liabilities were anticipated to be incurred in the process.

(9) Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2003 is as follows:

	Early Retirement	Asbestos Loan	Total
Balance beginning of year	\$19,305	8,364	27,669
Additions	-	-	-
Reductions	<u>4,875</u>	<u>2,000</u>	<u>6,875</u>
Balance end of year	<u>\$14,430</u>	<u>6,364</u>	<u>20,794</u>

Early Retirement

The District offers a voluntary early retirement plan to its full-time employees. Eligible employees must be at least age fifty-seven and less than sixty-two years of age and employees must have completed at least twenty years of consecutive service to the District. Employees must complete an application for early retirement which must be accompanied by the employee's written resignation. Such resignations are conditional upon acceptance by the Board of the employee for the early retirement program. The District will pay \$75 of the monthly premium for the single or family health and major medical insurance coverage. An employee who is granted early retirement benefits shall also be entitled up to \$120 per month to put towards the coverage of the individual's health insurance provided by the District's insurance carrier; this is based upon \$1.00 for each unused sick leave day up to 120 days. The retiree shall be notified of termination of benefits upon reaching age of sixty-five, death, or failure to make payment.

Early retirement benefits paid during the year ended June 30, 2003, totaled \$4,680. A liability has been recorded representing the District's commitment to fund early retirement costs.

Asbestos Loan

The District obtained a Federal loan for the purpose of asbestos removal. The loan is repayable in semi-annual installments of \$1,000.00 and bears no interest. A summary of the note retirement is as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rate</u> \$
2005	2,000
2006	2,000
2007	<u>2,364</u>
Total	<u>6,364</u>

Required Supplementary Information

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	1,528,882	55,641	1,584,523	1,647,400	1,647,400	(62,877)
State sources	1,107,579	1,911	1,109,490	1,099,918	1,099,918	9,572
Federal sources	191,706	57,564	249,270	218,000	218,000	31,270
Total receipts	<u>2,828,167</u>	<u>115,116</u>	<u>2,943,283</u>	<u>2,965,318</u>	<u>2,965,318</u>	<u>(22,035)</u>
Disbursements:						
Instruction	1,989,235	-	1,989,235	2,042,840	2,042,840	53,605
Support services	850,330	-	850,330	913,478	913,478	63,148
Non-instructional programs	11,001	103,897	114,898	148,692	148,692	33,794
Other expenditures	138,175	-	138,175	152,080	152,080	13,905
Total disbursements	<u>2,988,741</u>	<u>103,897</u>	<u>3,092,638</u>	<u>3,257,090</u>	<u>3,257,090</u>	<u>164,452</u>
Excess (deficiency) of receipts over (under) disbursements	(160,574)	11,219	(149,355)	(291,772)	(291,772)	142,417
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(160,574)	11,219	(149,355)	(291,772)	(291,772)	142,417
Balance beginning of year	<u>663,550</u>	<u>8,819</u>	<u>672,369</u>	<u>473,073</u>	<u>473,073</u>	<u>199,296</u>
Balance end of year	<u><u>502,976</u></u>	<u><u>20,038</u></u>	<u><u>523,014</u></u>	<u><u>181,301</u></u>	<u><u>181,301</u></u>	<u><u>341,713</u></u>

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	2,828,167	159,659	2,987,826
Expenditures	2,988,741	1,903	2,990,644
Net	(160,574)	157,756	(2,818)
Other financing sources (uses)	-	-	-
Beginning fund balances	663,550	53,915	609,635
Ending fund balances	502,976	211,671	606,817

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	115,116	14,246	129,362
Expenditures	103,897	14,159	118,056
Net	11,219	87	11,306
Beginning fund balances	8,819	12,321	21,140
Ending fund balances	20,038	12,408	32,446

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

Other Supplementary Information

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Non-major Governmental Funds

June 30, 2004

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	15,031	35,147	57,919	108,097
Property tax receivable:				
Current year	840	-	536	1,376
Succeeding year	55,000	-	51,617	106,617
Income surtax - succeeding year	<u>-</u>	<u>-</u>	<u>51,767</u>	<u>51,767</u>
Total assets	<u>70,871</u>	<u>35,147</u>	<u>161,839</u>	<u>267,857</u>
Liabilities and Fund Equity				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	55,000	-	51,617	106,617
Succeeding year income surtax	<u>-</u>	<u>-</u>	<u>51,767</u>	<u>51,767</u>
	<u>55,000</u>	<u>-</u>	<u>103,384</u>	<u>158,384</u>
Fund equity:				
Unreserved, undesignated fund balance	<u>15,871</u>	<u>35,147</u>	<u>58,455</u>	<u>109,473</u>
	<u>15,871</u>	<u>35,147</u>	<u>58,455</u>	<u>109,473</u>
Total liabilities and fund equity	<u>70,871</u>	<u>35,147</u>	<u>161,839</u>	<u>267,857</u>

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Non-major Governmental Funds

Year ended June 30, 2004

	Management	Student Activity	Physical Plant and Equipment Levy	Debt Service	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	54,783	-	78,324	-	133,107
Other	261	128,735	1,019	-	130,015
State sources	43	-	28	-	71
Federal sources	-	-	46,463	-	46,463
Total revenues	<u>55,087</u>	<u>128,735</u>	<u>125,834</u>	<u>-</u>	<u>309,656</u>
Expenditures:					
Instruction:					
Regular instruction	10,897	-	-	-	10,897
Co-curricular instruction	-	133,330	-	-	133,330
Support services:					
Administration services	902	-	19,443	-	20,345
Plant operation and maintenance	24,864	-	37,685	-	62,549
Student Transportation	8,144	-	99,649	-	107,793
Non-instructional programs:					
Food service operations	719	-	-	-	719
Other expenditures:					
Long-term debt:					
Principal	-	-	-	2,000	2,000
Facilities acquisition and construction services	<u>-</u>	<u>-</u>	<u>23,429</u>	<u>-</u>	<u>23,429</u>
Total expenditures	<u>45,526</u>	<u>133,330</u>	<u>180,206</u>	<u>2,000</u>	<u>361,062</u>
Excess (deficiency) of revenues over (under) expenditures	9,561	(4,595)	(54,372)	(2,000)	(51,406)
Other financing sources:					
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>2,000</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	9,561	(4,595)	(54,372)	-	(49,406)
Fund balances beginning of year, as restated (note 7)	<u>6,310</u>	<u>39,742</u>	<u>112,827</u>	<u>-</u>	<u>158,879</u>
Balance end of year	<u><u>15,871</u></u>	<u><u>35,147</u></u>	<u><u>58,455</u></u>	<u><u>-</u></u>	<u><u>109,473</u></u>

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Drama Club	6,670	3,023	1,856	7,837
Band/Vocal Programs	105	10,515	10,620	-
Band	189	2,415	2,604	-
Band Uniform Account	2,100	-	679	1,421
Popcorn Fund	-	1,302	1,302	-
Vending Machine/Pop - Charter Oak	261	13,244	13,505	-
Elementary Stand	-	3,253	3,253	-
Vending Machine/Pop - Ute	64	2,351	2,415	-
Basketball - Boys/Girls	6,483	10,060	12,611	3,932
Track - Boys/Girls	-	2,061	2,061	-
Football	1,768	5,501	7,046	223
Baseball	-	3,786	3,786	-
Volleyball	2,302	3,693	4,595	1,400
Softball	-	6,751	6,751	-
Coaches Concession	30	-	30	-
Annual	1,675	6,293	6,874	1,094
Newspaper	1,129	-	209	920
Spanish Club	2,359	3,364	4,615	1,108
Pep Club	2,997	1,347	1,519	2,825
FFA National Convention	65	2,737	1,343	1,459
FFA Fund	287	20,437	18,011	2,713
Student Council Sr High	2,727	7,834	8,744	1,817
Jr High Fund	-	222	222	-
Class of 2007	1,354	2,410	1,709	2,055
Class of 2006	2,303	-	933	1,370
Class of 2008	235	1,672	1,179	728
Class of 2009	-	1,349	18	1,331
Class of 2005	2,875	11,029	10,990	2,914
Class of 2004	1,764	1,049	2,813	-
Interest	-	317	317	-
Odyssey of the Mind	-	720	720	-
Total	39,742	128,735	133,330	35,147

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function

All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Local sources:				
Property tax	1,004,649	926,121	937,021	948,368
Income surtax	105,771	104,885	111,278	101,505
School Infrastructure Local Option Sales Tax	64,545	45,802	38,610	36,245
	<u>1,174,965</u>	<u>1,076,808</u>	<u>1,086,909</u>	<u>1,086,118</u>
State sources:				
State foundation aid	865,758	929,660	815,286	744,724
School improvement and technology funding	-	-	6,209	17,479
Instructional support state aid	9,445	10,443	9,843	10,273
Shelter Care/Juvenile Home Aid	7,772	9,730	-	-
Education Excellence Program:				
Phase I	43,051	48,772	48,772	48,772
Phase II	29,692	25,799	24,821	23,827
Phase III	-	6,410	14,184	13,275
Teacher mentoring	9,100	7,800	2,600	-
Teacher compensation	26,951	23,886	23,071	-
Vocational education aid	4,440	4,724	3,249	3,446
Iowa Early Intervention Block Grant	21,328	22,581	21,041	14,344
Revenue in lieu of taxes - military credit	725	754	455	770
AEA flow-through	85,829	97,235	92,275	87,648
Evaluator training	-	2,000	-	-
	<u>1,104,091</u>	<u>1,189,794</u>	<u>1,061,806</u>	<u>964,558</u>
Federal sources:				
Title I Grants to Local Educational Agencies	50,585	50,125	53,529	52,391
Safe and Drug Free Schools and Communities	1,884	2,560	1,057	534
Vocational Education - Basic Grants to States	510	-	-	-
Special Education - Basic Grants to States	12,790	9,379	-	-
Innovative Education Program Strategies	4,633	-	2,359	2,042
Class Size Reduction	-	-	10,930	8,571
Improving Teacher Quality - Grants to States	14,977	17,465	-	-
Rural Education Achievement Program	25,668	24,769	-	-
Star Schools	-	7,930	26,821	-
Grants for Assessments and Related Activities	3,410	-	-	-
Title XIX Assistance	30,786	-	-	-
Fire Safety Grant	46,463	-	-	-
Other	-	1,007	772	114,696
	<u>191,706</u>	<u>113,235</u>	<u>95,468</u>	<u>178,234</u>
Total	<u>2,470,762</u>	<u>2,379,837</u>	<u>2,244,183</u>	<u>2,228,910</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance and
on Internal Control over Financial Reporting**

To the Board of Education of the
Charter Oak-Ute Community School District:

We have audited the financial statements of the Charter Oak-Ute Community School District, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Charter Oak-Ute Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charter Oak-Ute Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Charter Oak-Ute Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-I-A is a material weakness. Prior year reportable conditions have all been resolved except for item 04-I-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Charter Oak-Ute Community School District and other parties to whom Charter Oak-Ute Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Charter Oak-Ute Community School District during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

August 13, 2004

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

04-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged. The District could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Part II: Other Findings Related to Required Statutory Reporting:

04-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-II-B Certified Budget - Disbursements for the year ended June 30, 2004, did not exceed the amounts budgeted.

04-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

- 04-II-E Business Transactions - No business transactions between the District and District officials were noted.
- 04-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 04-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 04-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 04-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 04-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

